

### Holding pattern

- Overall dairy prices dipped a touch overnight.
- Although WMP prices rose, beating expectations.
- All up, we expect prices to remain in a holding pattern until at least until the spring.

#### Summary

**Dairy markets are in a holding pattern.** Indeed, it's a good time for market watchers to take a holiday as we expect little change in the dairy outlook over coming months.

This expectation is borne out by the relatively tight price movement in NZ's key export over recent months and reinforced by the fact that it's winter. In fact, the winter months of June, July and August account for just 7% of NZ's annual production. Essentially, the NZ (and global) dairy outlook hinges very little either way on what happens over the winter months.

**In this sense, no news is good news.** The global dairy market outlook remains firm, with supply and demand largely in balance. With that in mind, Fiji anyone?

#### Auction Results

**Dairy prices dipped by 0.4% overnight.** However key product, WMP, bucked the trend, rising 2.6%. The WMP rise contrasted with futures prices prior to the auction; futures prices had pointed to a WMP being flat to down 2%.

**All up, prices are in a holding pattern.** The 2.6% WMP price lift effectively cancels out last auction's 3.3% fall. Moreover, looking over the past 3 months, prices for the longer-dated contracts are well-anchored in a tight range (see chart). The chart shows that demand is strong at the US\$3,000/MT level, and begins to wane as prices approach US\$3,200/MT.

**We expect prices to hold in the low US\$3,000s/MT range over coming months.** In particular, meaningful NZ production data will be thin on the ground over July and August as production is very low over winter. Meanwhile, Fonterra has set its new season production growth forecast at 3%, but the first real test of that number won't be until when production ramps up in the spring.

**For our part, we expect slightly firmer production growth this season of 4%.** While this is more optimistic than Fonterra's forecast, it is not a significant enough difference to change the price outlook. Note also that Fonterra continues to lose share to other dairy processors, which accounts for some of the forecast difference.

#### Implications

**All up, we continue to expect a 2017/18 milk price of \$6.75/kg.**

#### Season-end Forecasts

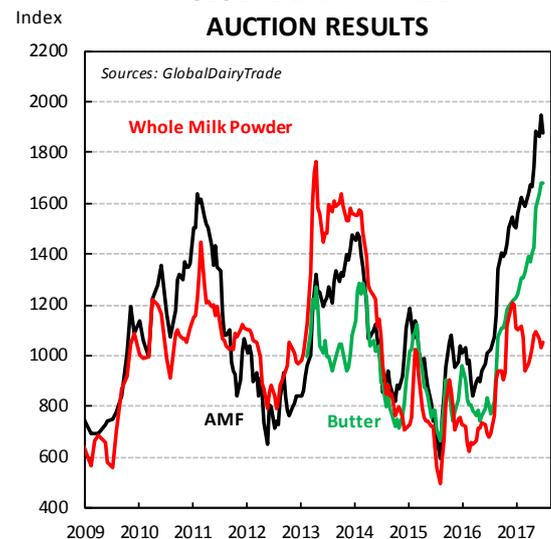
	2016/17	2017/18		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.15	\$6.50	\$6.75	\$6.50-\$7.00

\* per kg of milk solids (excluding dividend).

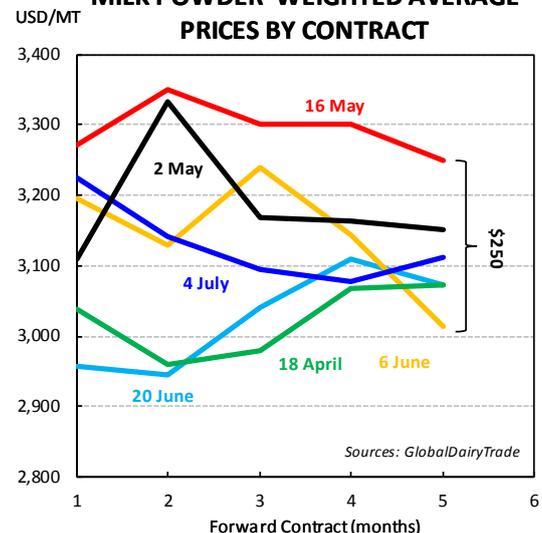
#### Key Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	2.6%	54.7%	3,111
Skim Milk Powder (SMP)	-4.5%	9.7%	2,090
Anhydrous Milk Fat (AMF)	-3.5%	84.0%	6,596
Butter	-0.1%	108.0%	5,775
GDT Price Index	-0.4%	56.0%	n.a.

#### GLOBAL DAIRY TRADE AUCTION RESULTS



#### MILK POWDER WEIGHTED AVERAGE PRICES BY CONTRACT



## ASB Economics &amp; Research

			Phone
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853
Senior Rural Economist	Nathan Penny	<a href="mailto:nathan.penny@asb.co.nz">nathan.penny@asb.co.nz</a>	(649) 448 8778
Senior Wealth Economist	Chris Tennent-Brown	<a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a>	(649) 301 5915
Economist	Kim Mundy	<a href="mailto:kim.mundy@asb.co.nz">kim.mundy@asb.co.nz</a>	(649) 301 5661
Publication & Data Manager	Judith Pinto	<a href="mailto:judith.pinto@asb.co.nz">judith.pinto@asb.co.nz</a>	(649) 301 5660



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

## Important Disclosures

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.